

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 /112 W

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R 051312Z OCT 76

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 4237

INFO AMEMBASSY BRASILIA

AMCONSUL SAO PAULO

USMISSION OECD PARIS

AMEMBASSY LONDON

LIMITED OFFICIAL USE RIO DE JANEIRO 3765

E.O. 11652: N/A

TAGS : ENRG BR

SUBJECT : PETROBRAS TO SIGN RISK CONTRACT WITH BRITISH
PETROLEUM

REF: RIO DE JANEIRO 2719, RIO DE JANEIRO 1687, CERP 0425

1. SUMMARY: ON SEPTEMBER 30 PETROBRAS CONCLUDED FIRST OF A
PROJECTED SERIES OF "RISK" (I.E., SERVICE) CONTRACT NEGOTI-
ATIONS FOR OIL EXPLORATION OFF BRAZILIAN COAST. CONTRACT,
WITH BRITISH PETROLEUM (BP), FOR EXPLORATION IN A SECTOR OF
THE SANTOS BASIN (AREA NO.8) OFF SAO PAULO, IS ONE OF 5
PETROBRAS HOPES TO SIGN BY MID JANUARY. OTHER FIRMS INVOLVED
IN RISK CONTRACT PROCESS ARE: ELF/AGIP (WHICH HAS ALREADY
BEGUN DETAILED NEGOTIATIONS WITH PETROBRAS), SHELL, ESSO AND
TEXACO, WITH SHELL LIKELY TO BE NEXT TO BEGIN NEGOTIATIONS.
PETROBRAS PRESIDENT ARAKEN DE OLIVEIRA REVEALED RECENTLY THAT
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A NEW ROUND OF RISK CONTRACT BIDDING WILL BE INITIATED AFTER

COMPLETION AND SIGNING OF THE FIRST SET OF 5 CONTRACTS. END SUMMARY.

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2. BACKGROUND: SIGNING OF "PRE-CONTRACT" AGREEMENT WITH BP, WITH ACTUAL CONTRACT SIGNATURE TO FOLLOW SHORTLY, WAS COMPLETED IN HASTILY ARRANGED SESSION JUST 4 HOURS BEFORE PETROBRAS' SELF-IMPOSED DEADLINE (END OF SEPTEMBER) FOR AN INITIAL RISK CONTRACT AGREEMENT AND MARKS THE END OF ONE STAGE OF A LONG, TORTUOUS, AND IN SOME WAYS DISAPPOINTING PROCESS FOR BRAZIL. AFTER SIGNIFICANT INITIAL RELUCTANCE, BRAZILIAN GOVERNMENT DECIDED IN OCTOBER 1975 THAT COUNTRY'S INCREASING DEMAND FOR PETROLEUM, AS WELL AS LARGE AND GROWING BALANCE OF PAYMENTS DEFICITS AND LIMITED NATIONAL CAPACITY TO EXPAND EFFORTS TO FIND NEW OIL DEPOSITS (ESPECIALLY IN DIFFICULT, COSTLY OFFSHORE AREAS) NECESSITATED A RECOURSE TO RISK CONTRACTS WITH OVERSEAS COMPANIES. HOWEVER, AT THE SAME TIME, CONDITIONS IN THE PETROLEUM INDUSTRY WORLD-WIDE - WITH ATTRACTIVE RISK CONTRACTS BEING OFFERED BY OTHER COUNTRIES, THE RELATIVELY STRINGENT TERMS IN BRAZILIAN CONTRACTS, AS WELL AS SOME FEELING WITHIN THE INDUSTRY THAT BRAZILIAN OFFSHORE GEOLOGICAL STRUCTURES WERE NOT ESPECIALLY PROMISING, ALL HAVE CONTRIBUTED TO SIGNIFICANTLY LESS OVERSEAS INTEREST IN BRAZILIAN RISK CONTRACTS THAN HAD BEEN EXPECTED. OUT OF 40 COMPANIES INITIALLY "PRE-QUALIFIED" TO BEGIN BIDDING PROCESS, ONLY FIVE (ONE AN ELF/AGIP CONSORTIUM) FINALLY SUBMITTED FIRM CONTRACT PROPOSALS, AND CONSENSUS IN BRAZILIAN PRESS AND INDUSTRY IS THAT INITIAL RISK CONTRACT PROCESS HAS BEEN SOMEWHAT OF A DISAPPOINTMENT.

3. ENTHUSIASM FOR THE SECOND SET OF SERVICE CONTRACT AREAS (LIKELY TO BE MAINLY, OR EXCLUSIVELY, OFFSHORE), WHICH WILL BE OFFERED IN NEXT ROUND OF RISK CONTRACT BIDDING, WILL DEPEND ON PERCEIVED ATTRACTIVENESS OF SECTORS AVAILABLE. IN THE PAST, SOME INDUSTRY CRITICISM HAS BEEN LEVELLED AT SMALL SIZE OF INITIAL AREAS OFFERED, AS WELL AS AT RELUCTANCE OF PETROBRAS TO FURNISH ANYTHING MORE THAN THAT SPECIFIC SEISMIC DATA CONTRACTED FOR BY INTERESTED COMPANIES (EVEN WHEN LARGE AMOUNTS OF OTHER INFORMATION WAS AVAILABLE, WITHIN PETROBRAS, ON LIMITED OFFICIAL USE

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SEVERAL OF THE RISK CONTRACT AREAS). BRAZILIAN GOVERNMENT (AND PETROBRAS) WILL HAVE TO ASSESS RELATIVELY POOR SHOWING IN FIRST RISK CONTRACT ROUND, THEN DETERMINE WHAT STEPS CAN BE TAKEN TO ENSURE THAT EXPERIENCE IS NOT REPEATED, IF THEY WISH TO AVOID NEGATIVE IMPACT ON PUBLIC AND INDUSTRY OF SECOND LESS-THAN-SUCCESSFUL EFFORT AT RISK CONTRACTING. SUCH MEASURES COULD INCLUDE: LARGER AREAS OFFERED IN SECTORS CONSIDERED TO BE MORE PROMISING; GREATER DEGREE OF PETROBRAS COOPER-

ATION WITH INTERESTED FIRMS; INCREASED WILLINGNESS TO ALLOW
PETROLEUM EXPORTS AS AT LEAST PARTIAL PAYMENT FOR SUCCESSFUL
EXPLORATION EFFORTS; AND LESS STRINGENT CONTRACTUAL TERMS.

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4. EMBASSY BRASILIA CONCURS ABOVE MESSAGE.
DEXTER

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